

SUR/85/56

CONFIDENTIAL

June 10, 1985

The Acting Chairman's Summing Up at the Conclusion
of the 1985 Article IV Consultation with the
Socialist People's Libyan Arab Jamahiriya
Executive Board Meeting 85/87 - June 3, 1985

Directors commended the authorities on the substantial progress achieved in adjusting the economy to sharply declining levels of income from oil. Expenditure restraints had been extensive, as the required adjustment was large and had been compounded by a sustained fall in oil receipts. Directors noted that the authorities had maintained a policy of refraining from external borrowing that would have been necessary to sustain a higher level of expenditure. It was observed that the tightened expenditure, complemented by a restrained credit policy, had contributed to a substantial reduction in the external sector deficit. Nevertheless, international reserves had declined rapidly while economic activity had slowed considerably, and the authorities had tightened restrictions on external transactions.

As the overall fiscal deficit in 1984 remained large and considerable fiscal and external deficits were likely to persist in 1985, Directors emphasized the need for further adjustment measures. The authorities' intention to eliminate the deficits after 1985 was welcomed. The growth targets in the next Plan were modest, indicating a continued policy of restraint. Some Directors expressed the hope that this stance would be supplemented by the use of the other economic instruments that were available to the authorities.

Noting the substantial appreciation in the Libyan dinar's exchange rate that had taken place in recent years, Directors expressed differing views regarding the appropriateness of an early correction or action in that area, but they observed that the increasing external constraints on the Socialist People's Libyan Arab Jamahiriya would eventually have to be addressed in a comprehensive manner. Directors encouraged the authorities to continue their efforts to diversify the economy and assess closely the need for appropriate exchange rate adjustment in support of such diversification.

With reference to the rapid development of the petrochemical sector in the Socialist People's Libyan Arab Jamahiriya, some Directors noted with regret the protectionist tendencies in some importing industrial countries. Directors noted that the intensified foreign exchange restrictions maintained by the Socialist People's Libyan Arab Jamahiriya for certain invisible payments had not been liberalized and that import allocations had been reduced. They expressed the hope that the authorities would be able to resume the liberalization stance they had followed for several years up to mid-1981.

Concerning the Socialist People's Libyan Arab Jamahiriya's external financial policies, some Directors remarked that there was little scope for further reserve reductions. Some Directors wondered whether resort to external borrowing to finance development projects could reduce the need for additional severe external adjustments and support growth and diversification.

Several Directors regretted that the quantitative analysis in the report was limited by the lack of adequate statistics on key factors of the economy. The authorities were thus encouraged to give priority to improving economic and financial statistics to provide a reliable basis for policy formulation. Directors also encouraged the authorities to consider technical assistance from the Fund in this area.

It is expected that the next Article IV consultation with the Socialist People's Libyan Arab Jamahiriya will be held on the basis of a 24-month cycle.